

Lancaster County Leasing Corporation
FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT
For the years ended June 30, 2002 and 2001

TABLE OF CONTENTS

| | Page |
|--|------|
| INDEPENDENT AUDITOR'S REPORT | 2 |
| FINANCIAL STATEMENTS | |
| Balance sheets | 3 |
| Statements of revenues, expenses, and changes in fund balances | 4 |
| Statements of cash flows | 5 |
| Notes to financial statements | 6-12 |



INDEPENDENT AUDITOR'S REPORT

Board of Directors
Lancaster County Leasing Corporation
Lincoln, Nebraska

We have audited the accompanying balance sheets of the Lancaster County Leasing Corporation (the Corporation), a component unit of Lancaster County, Nebraska, as of June 30, 2002 and 2001, and the related statements of revenues, expenses, and changes in fund balances and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note B to the financial statements the Corporation carries its investments at amortized cost. Accounting principles generally accepted in the United States of America require investments to be carried at fair value. The effects of this departure from accounting principles generally accepted in the United States of America on the financial position, results of operation, and cash flows have not been determined.

As discussed in Note F to the financial statements, the Corporation has recorded their leases with the County as operating leases. Accounting principles generally accepted in the United States of America require that a lease, which transfers ownership at the end of the lease term, be accounted for as a capital lease. The effects of this departure from accounting principles generally accepted in the United States of America on the financial position, results of operations, and cash flows have not been determined.

In our opinion, because of the effects of the matters discussed in the preceding paragraphs, the financial statements referred to above, do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of Lancaster County Leasing Corporation as of June 30, 2002 and 2001, or the results of its operations or its cash flows for the years then ended.

Omaha, Nebraska
August 27, 2002

Hayes & Associates, LLC

Lancaster County Leasing Corporation
BALANCE SHEETS
June 30, 2002 and 2001

| | <u>2002</u> | <u>2001</u> |
|------------------------------------|----------------------------|----------------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash | \$ 426,550 | \$ 1,722,687 |
| Investments | 5,195,428 | 3,686,622 |
| Accrued interest receivable | 64,635 | 22,995 |
| Total current assets | <u>5,686,613</u> | <u>5,432,304</u> |
| LAND, BUILDING, AND EQUIPMENT, net | 4,493,593 | 5,095,521 |
| DEBT ISSUANCE COSTS, net | <u>121,239</u> | <u>131,342</u> |
| Total assets | <u><u>\$10,301,445</u></u> | <u><u>\$10,659,167</u></u> |
| LIABILITIES AND FUND BALANCE | | |
| CURRENT LIABILITIES | | |
| Accrued interest payable | \$ 108,334 | \$ 115,612 |
| Current portion of bonds payable | 450,000 | 435,000 |
| Total current liabilities | <u>558,334</u> | <u>550,612</u> |
| BONDS PAYABLE | 5,305,000 | 5,755,000 |
| FUND BALANCE | | |
| Reserved for debt service | <u>4,438,111</u> | <u>4,353,555</u> |
| Total liabilities and fund balance | <u><u>\$10,301,445</u></u> | <u><u>\$10,659,167</u></u> |

See accompanying notes and independent auditor's report.

Lancaster County Leasing Corporation
 STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCES
 For the years ended June 30, 2002 and 2001

| | <u>2002</u> | <u>2001</u> |
|--|----------------------------|----------------------------|
| OPERATING REVENUES | | |
| Rental income | \$ 673,649 | \$ 301,489 |
| OPERATING EXPENSE | | |
| Depreciation | <u>602,211</u> | <u>602,155</u> |
| NET OPERATING INCOME (LOSS) | 71,438 | (300,666) |
| OTHER INCOME (EXPENSE) | | |
| Investment income | 271,818 | 278,827 |
| Interest, including amortization of debt issuance costs and discount on bonds payable | (251,200) | (264,296) |
| Loss on sale of investments | <u>(7,500)</u> | <u>(1,054)</u> |
| Total other income (expense) | <u>13,118</u> | <u>13,477</u> |
| NET INCOME (LOSS) | 84,556 | (287,189) |
| FUND BALANCE RESERVED FOR DEBT SERVICE, BEGINNING OF YEAR | <u>4,353,555</u> | <u>4,640,744</u> |
| FUND BALANCE RESERVED FOR DEBT SERVICE, END OF YEAR | <u><u>\$ 4,438,111</u></u> | <u><u>\$ 4,353,555</u></u> |

See accompanying notes and independent auditor's report.

Lancaster County Leasing Corporation
STATEMENTS OF CASH FLOWS
For the years ended June 30, 2002 and 2001

| | <u>2002</u> | <u>2001</u> |
|--|--------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net operating gain (loss) | \$ 71,438 | \$ (300,666) |
| Adjustment to reconcile net operating income to cash flows provided by operating activities | | |
| Depreciation | <u>602,211</u> | <u>602,155</u> |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | 673,649 | 301,489 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Principal payments on bonds | (435,000) | (415,000) |
| Interest paid on bonds | (248,375) | (263,393) |
| Cost of bond issuance | <u>(10,103)</u> | <u>-</u> |
| NET CASH FLOWS USED IN CAPITAL AND RELATED FINANCING ACTIVITIES | (693,478) | (678,393) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Proceeds from sales of investments | 500,000 | 1,001,055 |
| Purchases of investments | (2,047,843) | (502,225) |
| Interest on investments | 271,818 | 278,827 |
| Purchase of equipment | <u>(283)</u> | <u>(137,074)</u> |
| NET CASH (USED) PROVIDED BY INVESTING ACTIVITIES | <u>(1,276,308)</u> | <u>640,583</u> |
| NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS | (1,296,137) | 263,679 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | <u>1,722,687</u> | <u>1,459,008</u> |
| CASH AND CASH EQUIVALENTS, END OF YEAR | <u>\$ 426,550</u> | <u>\$ 1,722,687</u> |

See accompanying notes and independent auditor's report.

Lancaster County Leasing Corporation
NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2002 and 2001

NOTE A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following are the significant accounting policies of Lancaster County Leasing Corporation (the Corporation).

1. Organization

The Corporation is a tax-exempt, nonprofit corporation formed under the laws of the State of Nebraska to acquire property and to lease that property to Lancaster County, Nebraska (the County). The Corporation owns Lancaster Manor, a nursing home.

The Corporation is leasing Lancaster Manor to the County under the terms of an operating lease through 2012. The annual lease payments are equal to the debt service requirements of the bonds.

2. Reporting Entity

The Corporation is a blended component unit of the County and is included in the County's financial statements. Members of the County's Board of Commissioners serve as Directors of the Corporation and, therefore, all financial transactions are effectively controlled by common management.

3. Basis of Accounting

The financial statements are prepared on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

4. Cash Equivalents

For purposes of the statement of cash flows, the Corporation considers highly liquid investments with an initial maturity of three months or less to be cash equivalents. Cash and cash equivalents designated for long-term purposes or received with donor-imposed restrictions limiting their use to long-term purposes are not considered cash or cash equivalents for purposes of the statement of cash flows.

5. Investments

Investments consist primarily of debt securities, which are carried at amortized cost. The premium or discount is amortized over the life of the investment.

Lancaster County Leasing Corporation
NOTES TO FINANCIAL STATEMENTS - CONTINUED
For the years ended June 30, 2002 and 2001

NOTE A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

6. Land, Building, and Equipment

Major expenditures for land, building, and equipment are capitalized at cost. Expenditures for maintenance and repairs are expensed as incurred. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets ranging from 5 to 31.5 years.

7. Debt Issuance Costs

Costs incurred in connection with the issuance of bonds payable and the bond discounts have been deferred and are amortized over the term of the bonds on a straight-line basis.

8. Income Taxes

The Corporation is exempt from federal income taxes under Internal Revenue Code Section 501 (c)(3).

9. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts during the period. Actual results could differ from those estimates.

NOTE B. CASH AND INVESTMENTS

The following are descriptions of the various cash and investment accounts held by the Corporation:

Bond Funds - The bond resolutions create separate funds within the Corporation which are restricted in use and in the investment of monies. The bond fund consists of the principle and interest account. Lease payments received from the County and other pledged revenues are deposited in the principle and interest account. These monies can be used only to make principle and interest payments on the bonds. Investments of the principle and interest account are required to mature prior to the time the monies are needed for their intended purposes.

Lancaster County Leasing Corporation
NOTES TO FINANCIAL STATEMENTS - CONTINUED
For the years ended June 30, 2002 and 2001

NOTE B. CASH AND INVESTMENTS - CONTINUED

Renewal and Replacement Fund - used for funds received in excess of those required to be deposited in the bond fund. The renewal and replacement fund is used to make necessary purchases and repairs to building and equipment. The maturity of investments cannot exceed five years.

Reserve Fund - used to hold an amount equal to the annual debt service requirements of the bonds. Any excess arising from interest income or other gains is to be transferred to one of the accounts of the bond fund. In the event the balance is less than the required amount, the Corporation may assign pledged revenues to this fund. In addition, the County has the authority to levy taxes or raise other revenues to eliminate a deficit. The maturity of investments cannot exceed five years.

Rebate Fund - used to accumulate any amounts due to the United States Treasury Department under the arbitrage rebate regulations. The County sets aside \$1,000 of each semi-annual interest receipt into the fund. A formal rebate analysis will be made 9/30/2003, the end of the fifth bond year.

As of June 30, 2002 and June 30, 2001, the carrying amount and bank balance of the Corporation's cash was \$426,550 and \$1,722,687 respectively, which is held in trust in a Federated Treasury Obligation Money Market Fund that invests in U.S. Government Securities. The carrying amount, which approximates fair value, of the Corporation's investments was \$5,195,428 and \$3,686,622, respectively. The investments consisted of U.S. Treasury Notes, which are uninsured and unregistered. These securities are held by the counter party or by its trust department or agent, but not in the Corporation's name.

The cash and investments consisted of the following as of June 30, 2002 and 2001:

| Cash | 2002 | | 2001 | |
|------------------------------|-------------------|-------------------|--------------------|--------------------|
| | Carrying | Market | Carrying | Market |
| Bond fund | \$ 21,370 | \$ 21,370 | \$ 334 | \$ 334 |
| Renewal and replacement fund | 362,682 | 362,682 | 1,691,184 | 1,691,184 |
| Reserve fund | 36,134 | 36,134 | 27,922 | 27,922 |
| Rebate fund | 6,364 | 6,364 | 3,247 | 3,247 |
| | <u>\$ 426,550</u> | <u>\$ 426,550</u> | <u>\$1,722,687</u> | <u>\$1,722,687</u> |

Lancaster County Leasing Corporation
NOTES TO FINANCIAL STATEMENTS - CONTINUED
For the years ended June 30, 2002 and 2001

NOTE B. CASH AND INVESTMENTS - CONTINUED

| | 2002 | | 2001 | |
|------------------------------|--------------------|--------------------|--------------------|--------------------|
| <u>Investments</u> | <u>Carrying</u> | <u>Market</u> | <u>Carrying</u> | <u>Market</u> |
| Renewal and replacement fund | \$4,508,728 | \$4,619,065 | \$2,999,922 | \$3,052,818 |
| Reserve fund | 686,700 | 654,000 | 686,700 | 669,124 |
| | <u>\$5,195,428</u> | <u>\$5,273,065</u> | <u>\$3,686,622</u> | <u>\$3,721,942</u> |

The Corporation carries its investments at amortized cost. Accounting principles generally accepted in the United States of America require investments to be carried at fair value. The effects of this departure from accounting principles generally accepted in the United States of America of the financial position, results of operations, and cash flows have not been determined.

NOTE C. LAND, BUILDING AND EQUIPMENT

Land, building, and equipment consist of the following as of June 30, 2002 and 2001:

| | 2002 | 2001 |
|-------------------------------|---------------------|---------------------|
| Land | \$ 500,000 | \$ 500,000 |
| Building | 7,301,504 | 7,301,504 |
| Equipment | <u>1,541,953</u> | <u>1,541,670</u> |
| | 9,343,457 | 9,343,174 |
| Less accumulated depreciation | <u>(4,849,864)</u> | <u>(4,247,653)</u> |
| | <u>\$ 4,493,593</u> | <u>\$ 5,095,521</u> |

The following represents the change in the land, building, and equipment:

| | 2002 | 2001 |
|-------------------|---------------------|---------------------|
| Beginning balance | \$ 9,343,174 | \$ 9,209,146 |
| Additions | 283 | 137,074 |
| Deletions | - | (3,046) |
| Ending balance | <u>\$ 9,343,457</u> | <u>\$ 9,343,174</u> |

Lancaster County Leasing Corporation
NOTES TO FINANCIAL STATEMENTS - CONTINUED
For the years ended June 30, 2002 and 2001

NOTE D. DEBT ISSUANCE COSTS

Debt issuance costs consist of the following as of June 30, 2002 and 2001:

| | <u>2002</u> | <u>2001</u> |
|-------------------------------|-------------------|-------------------|
| Issuance costs | \$ 131,342 | \$ 142,288 |
| Additional issuance costs | - | - |
| Less accumulated amortization | <u>(10,103)</u> | <u>(10,946)</u> |
| | <u>\$ 121,239</u> | <u>\$ 131,342</u> |

NOTE E. BONDS PAYABLE

Bonds payable as of June 30, 2002 and 2001 are as follows:

| | <u>2002</u> | <u>2001</u> |
|---|--------------------|--------------------|
| \$7,145,000 Lancaster County Leasing Corporation Tax Supported Lease-Rental Refunding bonds, Series 1998, issued October 30, 1998, payable in scheduled semi-annual installments at each January 15 and July 15, commencing July 15, 1999, with interest ranging from 3.25% to 4.5% through July 15, 2012, final payment due July 15, 2012. | <u>\$5,755,000</u> | <u>\$6,190,000</u> |

The following represents the change in the bonds payable:

| | <u>2002</u> | <u>2001</u> |
|-------------------|--------------------|--------------------|
| Beginning balance | \$6,190,000 | \$6,605,000 |
| Proceeds | - | - |
| (Payments) | <u>(435,000)</u> | <u>415,000</u> |
| Ending balance | <u>\$5,755,000</u> | <u>\$6,190,000</u> |

The aggregate maturities including principal and interest relating to these bonds are as follows:

| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|----------------------|--------------------|--------------------|--------------------|
| 2003 | \$ 450,000 | \$ 232,295 | \$ 682,295 |
| 2004 | 465,000 | 215,287 | 680,287 |
| 2005 | 485,000 | 197,485 | 682,485 |
| 2006 | 505,000 | 178,495 | 683,495 |
| 2007 | 530,000 | 158,220 | 688,220 |
| 2008 - 2012 | 2,985,000 | 443,135 | 3,428,135 |
| 2013 | <u>335,000</u> | <u>7,538</u> | <u>342,538</u> |
| Total | 5,755,000 | 1,432,455 | 7,187,455 |
| Less current portion | <u>(450,000)</u> | <u>(232,295)</u> | <u>(682,295)</u> |
| | <u>\$5,305,000</u> | <u>\$1,200,160</u> | <u>\$6,505,160</u> |

Lancaster County Leasing Corporation
NOTES TO FINANCIAL STATEMENTS - CONTINUED
For the years ended June 30, 2002 and 2001

NOTE F. LEASE CONTRACTS

The Corporation has contracted with the County for the lease of the property of Lancaster Manor. The contract requires lease payments in the amount to satisfy the bond and interest requirements. The contracts provide that the Corporation shall retain title to the building and land until the bonds are paid in full. Upon retirement of the bonds, the building and land becomes the property of the County. All contract payments are assigned to Wells Fargo as paying agent of the outstanding bonds and interest. Bonds maturing on or prior to July 15, 2005 are not subject to redemption prior to the stated maturities. The Bonds maturing on or after January 15, 2006 are subject to redemption prior to maturing at the option of the Corporation. Rent received from the County was \$673,649 and \$301,489 for the years ended June 30, 2002 and 2001, respectively.

The Corporation has recognized the lease with the County as an operating lease. Accounting principles generally accepted in the United States of America requires that a lease, which has a transfer of ownership at the end of the lease term, be recognized as a capital lease. The effect of not recording these leases as capital leases on the financial position, results of operations, and cash flows has not been determined.

NOTE G. RISK MANAGEMENT

The Corporation is included in the County's risk management. The Corporation is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees and natural disasters. These risks of loss are covered by various commercial insurance policies (with various deductibles) with the exception of workers' compensation and general liability. The County has established Workers' Compensation Loss and Self-Insurance Funds (internal service funds) to account for and finance a portion of its uninsured risks of loss. The County is self-insured up to \$300,000 per occurrence for workers' compensation risks and up to \$100,000 per occurrence for general liability risks. The self-insurance programs are administered by the County's Worker's Compensation and Risk Manager. Settled claims have not exceeded commercial coverage in any of the last three years. Commercial insurance covers the excess of the self-insured amount to a maximum of \$1,000,000 for employers' liability and statutory limits for workers' compensation and \$5,000,000 for general liability.

Lancaster County Leasing Corporation
NOTES TO FINANCIAL STATEMENTS - CONTINUED
For the years ended June 30, 2002 and 2001

NOTE G. RISK MANAGEMENT - CONTINUED

The County utilizes the services of an actuary to prepare an analysis of the self-insured worker's compensation and general liability risks. The analysis is used to assist the County with its financial planning, budgeting, and management of the self-insurance programs. The programs are funded on a cash basis with annual premiums charged to all governmental fund types, except Lancaster Manor Fund, based on past experience of incurred losses and remitted to the Worker's, Compensation Loss and Self-Insurance Internal Service Funds. As of June 30, 2002 and 2001, the estimated liability for claims is zero.